

VZCZCXYZ0001
RR RUEHWEB

DE RUEHNT #0514/01 1230405
ZNR UUUUU ZZH
R 020405Z MAY 08
FM AMEMBASSY TASHKENT
TO RUEHC/SECSTATE WASHDC 9593
INFO RUEHTA/AMEMBASSY ASTANA 0148
RUEHAH/AMEMBASSY ASHGABAT 3935
RUEHBJ/AMEMBASSY BEIJING 1081
RUEHEK/AMEMBASSY BISHKEK 4550
RUEHDBU/AMEMBASSY DUSHANBE 0428
RUEHBUL/AMEMBASSY KABUL 2424
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHINGTON DC
RUEKJCS/SECDEF WASHDC
RHEHNSC/NSC WASHDC

UNCLAS TASHKENT 000514

SIPDIS

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [EARG](#) [EAID](#) [ECON](#) [ETRD](#) [PGOV](#) [PREL](#) [UZ](#)

SUBJECT: IMPACT OF RISING FOOD/AG COMMODITY PRICES

Ref: State 39410

¶1. (SBU) Food and agricultural commodity prices have risen steeply in Uzbekistan over the past year and a half or more. More recent spikes in world prices have been felt acutely in Uzbekistan, as in other Central Asian countries. Embassy Tashkent maintains its own detailed price survey data for Uzbekistan. These figures have been

compiled for the past year, and we consider them to be more reliable than those available through other sources, including the International Monetary Fund (IMF). Individuals wishing to review this data may contact Embassy Economic Specialist Jakhongir Mavlany

at MavlanyJM@state.gov.

¶2. (SBU) Demand: Wheat, beef, and cooking oil are the three most important food products. Prices for each have more than doubled in

the past two years. Consumption has dropped in response. Uzbekistan is a net importer of wheat. According to official figures, the country imported 2.4 million metric tons of wheat in 2007, almost all of it food quality, to meet a domestic food demand

of 5 million metric tons. The country produced 6.2 million metric tons, with the majority of that used for fodder. In 2008, official

projections for wheat imports are 3 million metric tons.

¶3. (SBU) Supply: The official grain production target for 2008-2009

is 6.2 million tons, including 5.8 million tons of wheat. Uzbek government figures, however, are often unreliable. The actual production of food products has probably declined, and some of the contributing factors are described in the following paragraphs. Input costs have had some impact, but they are offset in part by the relatively low use of fertilizers and the high level of manual labor.

¶4. (SBU) Political impact: The political impact of rising prices is

mitigated by the high percentage of Uzbeks now working abroad and remitting earnings home. However, the government is acutely aware of the impact food shortages and higher prices have had on its popularity and on the potential for destabilization. To date, protests have been limited and have largely ceased with the arrival

of spring. Many well-paid middle class Uzbeks have felt the impact

of higher prices (including in areas such as housing), and they are acutely aware that a limited but growing wealthy elite now enjoys privileges they can no longer afford.

¶5. (SBU) Economic impact: From a balance of payments standpoint, increased food imports have coincided with a sharp rise in Uzbekistan's revenues from exports of natural gas. Nevertheless, for the majority of citizens, this means little. Housing prices have increased, jobs in the provinces have disappeared, and food prices have gone up, making life noticeably more difficult for most

citizens. Many poor families & we guess the majority of Uzbekistan's citizens & are meaningfully and increasingly affected by every additional increase in price. Though Uzbekistan is still largely rural, most families will see little benefit from rising prices.

¶6. (SBU) Environmental impact: In Uzbekistan, 90 percent of farmland uses artificial irrigation. Inefficient and crumbling irrigation systems lead to enormous water loss. Upstream hydro-electric projects and off-season releases (or potential releases) are having a negative impact (or potentially negative impact) on water availability. Snowfall in the mountains last year reportedly

was lower than normal (despite punishing low temperatures), and river flows are slower this year. Last year also saw regional shortages of water. Beginning this year, the region has entered another cycle of hydrological drought that typically lasts for two to three years, with below normal surface water available for irrigation and environmental needs of ecosystems. In addition, some reports & unverified & say Uzbekistan is losing upwards of 20,000 hectares of arable land per year due to land degradation caused by unsustainable agricultural and irrigation practices. Due

to this year's freezing winter temperatures, some independent experts and observers believe that it will be extremely difficult to reach the state target of 5.8 million tons of wheat yield this year.

¶7. (SBU) The government policy response: The government has announced measures to stimulate cattle production, but the impact will not be determined for some time. The government has also announced urgent measures to build emergency wheat reserves. Russian press reporting from April 30 citing a source in Uzbekistan's Customs Committee indicated that the Government of Uzbekistan has unofficially banned the export of rice from the country to keep rice prices—which have risen 80 percent since January—stable. Many counterproductive economic and trade policies hinder agricultural production and the availability of imported goods. Wholesale reforms are needed but carry enormous political risks, including that of immediate dislocations. Monopoly interests and corruption also hinder reform.

Norland